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March 24, 1999

Mr. James L. McDonough, Vice President for Business and Finance
New Mexico State University
Post Office Box 30001
Las Cruces, NM 88003

Re: Final Report on Quality Control Review of KPMG Peat Marwick LLP Audit of
New Mexico State University for Fiscal Year Ended June 30, 1998
Assignment No. A9901900
Report No. IG-99-014

The subject final report is provided for your use. Please refer to the Results in Brief section for the overall review results. If you have any questions concerning the report, please contact Mr. Kevin Carson, Director, Audit Quality, Office of Inspector General, at 301-286-0498, or Ms. Vera Garrant, A-133 Audit Manager, at 202-358-2596. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix D.

Sincerely,

[Original signed by]

Russell A. Rau
Assistant Inspector General for Auditing

Enclosure

IG-99-014

**QUALITY
CONTROL
REVIEW
REPORT**

**KPMG PEAT MARWICK LLP AUDIT OF
NEW MEXICO STATE UNIVERSITY FOR
FISCAL YEAR ENDED JUNE 30, 1998**

March 24, 1999



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

NASA	National Aeronautics and Space Administration
NMSU	New Mexico State University
OMB	Office of Management and Budget

NASA Office of Inspector General

IG-99-014
A9901900

March 24, 1999

KPMG Peat Marwick L.L.P. Audit of New Mexico State University for Fiscal Year Ended June 30, 1998

Introduction

New Mexico State University (NMSU) of Las Cruces, New Mexico, is a tax exempt land grant institution that provides service to the people of New Mexico through education, research, extension education, and public service, with special emphasis on preserving the state's multi-cultural heritage, protecting its environment, and fostering its economic development in an interdependent world.

A single audit of NMSU is required by Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The office of KPMG Peat Marwick L.L.P., El Paso, Texas, performed the single audit for NMSU.

OMB Circular A-133 Audit Report. On October 16, 1998, KPMG Peat Marwick L.L.P. issued an audit report on NMSU for the fiscal year ended June 30, 1998. The auditors questioned \$110,038 from the Department of Health and Human Services' Children Youth and Families Department program (Finding 98-2). The audit report identifies three other findings that are required to be reported by the Office of the State Auditor, New Mexico, but are not required to be reported by OMB Circular A-133. Accordingly, those findings do not appear on the Data Collection Form¹ and are not required to be resolved by Federal agencies.

KPMG Peat Marwick L.L.P. issued an unqualified opinion on the financial statements, Schedule of Federal Awards, and major program compliance. The auditors found no instances of noncompliance in the financial statement audit that are required to be reported under generally accepted government auditing standards. Finally, the auditors noted no matters that are considered to be material weaknesses involving internal controls relating to the financial statement or major programs.

¹The form states whether the audit was completed in accordance with the Circular and provides information about the auditee, its Federal programs, and the results of the audit.

Quality Control Review

As the cognizant audit agency for NMSU, the National Aeronautics and Space Administration (NASA) performed the quality control review of NMSU's OMB Circular A-133 audit jointly with the Department of Education, Office of Inspector General. NASA and the Department of Education reviewed the research and development and student financial aid major programs, respectively. The NMSU reported total Federal expenditures for the fiscal year ended June 30, 1998, as shown in the table below.

Fiscal Year 1998 Expenditures

<u>Federal Agency</u>	<u>Total Expenditures</u>	<u>Percent of Total</u>
Department of Education	\$19,620,739	21
National Aeronautics and Space Administration	19,136,469	21
Department of Defense	15,754,971	17
Department of Energy	12,872,201	14
Department of Agriculture	10,656,970	12
Other Federal Agencies	<u>14,512,255</u>	<u>15</u>
Total Fiscal Year 1998 Expenditures	<u>\$92,553,605</u>	<u>100</u>

Objectives

The objectives of a quality control review were to determine whether KPMG conducted the audit in accordance with generally accepted government auditing standards and generally accepted auditing standards and whether the audit meets the auditing and reporting requirements of OMB Circular A-133.

The objective of an audit report review is to determine whether the report submitted by the auditee meets the reporting requirements of OMB Circular A-133.

See Appendix A for additional details on the single audit requirements. Appendixes B and C provide additional details on the objectives, scope, and quality control review methodology.

Quality Control Review Results.

The NMSU audit report and associated KPMG Peat Marwick L.L.P. working papers met the applicable auditing guidance and regulatory requirements in: (1) OMB Circular A-133 and its related Compliance Supplement, (2) generally accepted government auditing standards; and (3) generally accepted auditing standards.

Appendix A. Single Audit Requirements

The Inspector General Act of 1978, as amended (Public Law 95-452), requires an agency's Inspector General to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General."

The Single Audit Act of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments, while OMB Circular A-133 was intended to improve financial management for nonprofit organizations. The Act and the Circular established uniform requirements for audits of Federal financial assistance; promoted efficient and effective use of audit resources; and helped to ensure that Federal departments and agencies rely on and use the audit work to the maximum extent practicable.

The Single Audit Act Amendments of 1996 (Public Law 104-156) incorporate the previously excluded nonprofit organizations. Including the nonprofit organizations strengthens the usefulness of the audits by establishing one uniform set of auditing and reporting requirements for all Federal award recipients that are required to obtain a single audit. Major changes to the Act include: (1) increasing the audit threshold from \$25,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required; (2) selecting Federal programs for audit based on a risk assessment rather than the amount of funds involved; and (3) improving the contents and timeliness of single audits.

The revised OMB Circular A-133 was issued pursuant to the Single Audit Act Amendments of 1996 on June 30, 1997. In general, the Circular requires that an auditee who expends \$300,000 or more annually in Federal awards, obtain an audit and issue a report of its Federal award expenditures in accordance with the generally accepted government auditing standards applicable to financial audits. The audit must be performed by auditors who meet the independent standards in generally accepted government auditing standards and in accordance with the auditing and reporting requirements of the Circular and its related Compliance Supplement. The audit report submission includes:

- Financial statements and related opinion
- Schedule of Expenditures of Federal Awards and related opinion
- Report on internal controls and compliance review on the financial statements
- Report on internal controls review and compliance opinion on major programs
- Schedule of Findings and Questioned Costs

The auditee must also submit a Data Collection Form to the Federal Audit Clearinghouse. The Form summarizes the significant information in the audit report for dissemination to the public through the Internet. Responsible officials from the audited entity and the audit organization sign the form certifying to the information presented.

Appendix A

The Compliance Supplement is based on the requirements of the Single Audit Act Amendments of 1996 and the final June 30, 1997, revision of OMB Circular A-133, which provide for the issuance of a compliance supplement to assist auditors in performing the required audits. The National State Auditors Association study states:

The Compliance Supplement provides an invaluable tool to both Federal agencies and auditors in setting forth the important provisions of Federal assistance programs. This tool allows Federal agencies to effectively communicate items which they believe are important to the successful management of the program and legislative intent

Compliance with the Supplement satisfies the requirements of OMB Circular A-133. The Supplement identifies Federal programs by Federal agency. The Supplement identifies existing important compliance requirements, which the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without the Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. The Supplement is a more efficient and cost-effective approach to performing this research. It provides a source of information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with the requirements.

For single audits, the Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs and specifically states which of the following 14 compliance requirements are applicable to a major program that may be audited:

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles
3. Cash Management
4. Davis-Bacon Act
5. Eligibility
6. Equipment and Real Property Management
7. Matching, Level of Effort, Earmarking
8. Period of Availability of Federal Funds
9. Procurement and Suspension and Debarment
10. Program Income
11. Real Property Acquisition/Relocation Assistance
12. Reporting
13. Subrecipient Monitoring
14. Special Tests and Provisions

The Compliance Supplement assists the auditors in determining the audit scope for the Circular's internal control requirements. For each compliance requirement, the Supplement describes the objectives of internal control and certain characteristics that

Appendix A

when present and operating effectively, may ensure compliance with program requirements. The Supplement gives examples of the common characteristics for the 5 components of internal controls (control environment, risk assessment, control activities, information and communication, and monitoring) for the 14 compliance requirements.

Appendix B. Objectives and Scope

Audit Report Review

The objective of an audit report review is to determine whether the report submitted by the auditee meets the reporting requirements of OMB Circular A-133. As the cognizant Federal audit agency for NMSU, we performed a review of the NMSU audit report for the fiscal year ended June 30, 1998. We reviewed the report for compliance with the requirements of the Single Audit Act, Single Audit Act Amendments of 1996, and OMB Circular A-133. We focused our review on the report's qualitative aspects of: (1) due professional care; (2) auditor's qualifications and independence; (3) financial statements, compliance, and internal control reporting; (4) Schedule of Expenditures of Federal Awards; and (5) Schedule of Findings and Questioned Costs.

Quality Control Review

The objectives of a quality control review are to ensure that an audit was conducted in accordance with generally accepted government auditing standards² and generally accepted auditing standards and whether the audit meets the auditing and reporting requirements of OMB Circular A-133. As the cognizant Federal audit agency for NMSU, we conducted a joint quality control review with the Department of Education, Office of Inspector General, of KPMG's audit working papers. We focused the review on the audit's qualitative aspects of:

- Auditor's qualifications
- Independence
- Due professional care
- Quality control
- Planning and supervision
- Federal receivables and payables
- Major program determination
- Internal controls and compliance testing for major programs
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Data Collection Form

We organized our review by the general and field work audit standards and the required elements of a single audit. We emphasized the areas of major concern to the Federal Government such as determining and auditing major program compliance and internal controls. We conducted the review February 22 through 25, 1999, at the El Paso, Texas, offices of KPMG Peat Marwick L.L.P. and NMSU. The NASA Office of Inspector

²These standards are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States.

Appendix B

General has not previously performed a quality control review at other KPMG Peat Marwick L.L.P. locations.

Peer Review Report

We reviewed the November 8, 1996, report on the most recent peer review of KPMG Peat Marwick L.L.P., performed by Price Waterhouse LLP. Price Waterhouse LLP determined that KPMG Peat Marwick L.L.P. met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that KPMG Peat Marwick L.L.P. complied with the standards during the fiscal year ended March 31, 1996.

Appendix C. Quality Control Review Methodology

Independent Auditors' Report

The auditors are required to obtain reasonable assurance about whether the financial statements are free of material misstatement. The auditors are also required to subject the Schedule of Expenditures of Federal Awards to the procedures applicable to the audit of the financial statements and to ensure that the amounts are fairly stated in relation to the basic financial statements. We reviewed the audit programs and the testing of evidence to determine whether testing was sufficient based on an assessment of control risk to warrant the conclusion reached. We also reviewed the working papers to determine whether they supported the conclusion.

Schedule of Expenditures of Federal Awards

The recipient is responsible for creating the Schedule of Federal Awards. The auditors are required to audit the information in the Schedule to ensure it is fairly presented in all material respects in relation to the financial statements taken as a whole. We reviewed the audit programs for the appropriate procedures, reviewed a selected number of footings³ and cross-footings,⁴ and traced some of the amounts to the Subsidiary Ledger and/or Trial Balance.

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The auditors are required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect in determining financial statement amounts. The auditors are also required to obtain an understanding of internal controls that is sufficient to plan the audit and to assess control risk. We reviewed the audit programs for the appropriate procedures, the working paper documentation, and the compliance and substantive testing performed.

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

The auditors are required to determine whether the recipient has complied with laws, regulations, and the provisions of contracts and grant agreements that may have a direct and material effect on each of its major Federal programs. The auditors are required to

³ The verification of a row or column total.

⁴ The verification that the total of all rows and the total of all columns add to the same number.

Appendix C

use the procedures in the OMB Circular A-133 Compliance Supplement (May 1998 edition) to determine the compliance requirements for each major program. We reviewed the audit program for the appropriate procedures and compared the audit program steps to those in the Compliance Supplement to determine whether the applicable steps had been performed. We also reviewed the working paper documentation and its support and the compliance tests performed.

The auditors are also required to perform procedures to obtain an understanding of the internal controls over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs. The auditors must plan and perform internal controls testing over major programs to support a low level of control risk for the assertions relevant to the compliance requirements for each major program. We reviewed the audit programs for the appropriate procedures, the working paper documentation, and the test of controls performed.

Schedule of Findings, and Questioned Cost, and Comments to Administration

The auditors are required to prepare a Schedule of Findings and Questioned Costs that summarizes the audit results. This schedule includes information about and related to the audit that is not required to be identified in other parts of the audit report including: (1) major programs audited; (2) details on findings and questioned costs (including reportable conditions and material weaknesses); (3) recipient's corrective action plan; (4) dollar threshold for Type A and Type B programs; and (5) whether the recipient is considered to be low risk. We reviewed the audit programs for the appropriate procedures and the working paper documentation supporting the information in the schedule.

Appendix D. Report Distribution

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Code B/Comptroller
Code G/General Counsel
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NASA Field Installation

Director, Goddard Space Flight Center

Appendix D

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Goddard Space Flight Center
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Lyndon B. Johnson Space Center
John F. Kennedy Space Center
Langley Research Center
George C. Marshall Space Flight Center
John C. Stennis Space Center

Non-NASA Federal Individual

Director, University Business Affairs, Office of Naval Research, Department of the Navy

Major Contributors to the Report

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